

15 January 1982

## MEMORANDUM

SUBJECT: East Asian Prospects for 1982

An Overview of East Asia in 1982 is given below:

The succession to Deng Xiaoping will continue to be a major item in 1982, raising the possibility but not the likelihood of instability in domestic politics and stagnation in foreign relations. Chinese-US relations will remain influenced by Taiwan. If the Taiwan arms sale issue is handled smoothly, relations with both China and Taiwan are likely to improve.

An adverse US trade balance with Japan and bargaining over Japan's defense budget will mar but not spoil US-Japanese bilateral relations in 1982. Unless US reactions stiffen markedly, however, Japan will take only halting and largely ineffective steps towards moderating these chronic problems.

Kampuchea could become an important issue for US policymakers if a non-military aid package is extended through ASEAN to non-Communist Kampuchean resistance forces. No major changes in the military situation are expected.

War is unlikely on the Korean Peninsula in 1982, but both Koreas face serious economic problems. In the north the succession to Kim Il-song's son and in the south the legitimacy of the Chun Doo Hwan government are matters of pressing concern. US relations with South Korea remain cordial.

The US-ASEAN dialogue remains focussed on means of dealing with Vietnam's occupation of Kampuchea. ASEAN is not a monolith on this question, but ASEAN's organizational unity is not at stake. ASEAN countries would welcome increased US participation in Southeast Asian affairs as a counterweight to Chinese and Soviet activity.

Country by country prospects for 1982 are given below:

China: Deng Xiaoping has little time left in which to complete planning for his own succession. Although his appointees occupy most key positions in the bureaucracy and his economic policies have gained general acceptance, the attitudes of senior military officers remain in question. If China's economy resumes growth and the military becomes more supportive, Deng's succession plans are likely to succeed; if not, China may enter a period of political instability in 1982.

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Chinese-US bilateral relations will remain heavily influenced by Taiwan. A mutually acceptable handling of the Taiwan arms sale issue tops the Chinese-US agenda for 1982. If agreed, US relations with both China and Taiwan are likely to improve. In an atmosphere of improved relations the US will face the question of how much and what kind of military and dual-use civilian technology to make available to China.

Chinese relations with the Soviet Union will continue to be influenced by China's assessment of the US as a strategic partner. China is likely to seek some improvements in state-to-state relations with the Soviet Union, but is equally likely to eschew improved party-to-party ties. There is ample room to improve trade relations, river navigation arrangements, and border controls without fundamentally altering the adversarial nature of Chinese-Soviet relations. Looking to its southern flank, China will continue to engage India in border talks which have as their objective a modest reduction of Soviet influence in India; not much progress is expected. The Chinese will remain Democratic Kampuchea's only foreign supporter and will continue to encourage the formation of a coalition of resistance groups which would secure Democratic Kampuchea's position.

Japan: Trade issues will dominate US relations with Japan in 1982 -- the bilateral trade imbalance could exceed 1982 levels. Although Japan will dismantle many remaining non-tariff barriers and address specific sectoral trade problems, the imbalance could grow. A stronger yen will help somewhat. The Japanese leadership remains divided on whether or how to seek a more lasting solution to this chronic problem. Meanwhile, Japanese industrial policy decisions will continue to enhance their position of technical dominance in such fields as robotics, VLSI, consumer electronics, and semiconductors, and to sharpen their threat to US technical dominance in such fields as advanced computers, gene splicing, and office automation.

Contention over Japan's level of defense spending is also likely to disturb bilateral relations in 1982. Although the rate of increase in defense spending accelerated slightly in 1982, the Japanese have already given notice that they will not press for a similar rate of increase in 1982. This decision, unless modified, could cause defense spending as a percentage of GNP to fall below this year's level of .91%. Against this backdrop, the criticism in the US that Japan is not doing its part in strategic defense is likely to increase, leading to pressure and accusations from the US side.

Kampuchea: There is little military basis for anticipating any significant change in the low level of military activity within Kampuchea. However, Vietnam's downward economic spiral may compel even Hanoi's hard-bitten leaders to lower their level of investment to maintain Kampuchea as a compliant puppet state. Although differences of opinion among the ASEAN countries over Kampuchea may be reconcilable, it is unclear whether Thailand and Singapore are prepared to follow through with their pledge to provide substantial military and other assistance to the non-Communist resistance in Kampuchea. This in turn affects US willingness to move on stage in 1982 with a modest non-military aid package.

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Korea: Reflecting world economic conditions, South Korea faces internal strains which are posing a challenge to the new Chun Doo Hwan government's search for legitimacy and will further inhibit the growth of democratic institutions. South Korea's export fueled boom has sputtered to a stop and internal economic growth remains stagnant. Beyond these problems, Seoul-Washington relations are cordial, with President Chun showing confidence in the US defense commitment.

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American experts both inside and outside the US Government believe that a coordinated Seoul-Washington discrete probe of North Korea's oft-repeated desire for negotiations could be carried out at relatively low cost. North Korean internal economic difficulties and problems in Pyongyang's relations with both Beijing and Moscow provide a base for surmise that the North may be moving toward interacting with the West. Like China, North Korea also faces a political succession problem. Also like China, it is unclear whether senior military leaders support Kil Il-song's chosen successor, his son, Kim Chung-il. The younger Kim's abilities are likely to be tested in 1982. Although a North Korean attack on South Korea always remains a possibility, there is little evidence that North Korea is preparing to initiate hostilities in the near future.

Philippines: The US will negotiate with the Philippines over the continuation of the agreement which permits use of important military facilities at Subic Bay and Clark Field. This will dominate the bilateral relationship during this period and produce posturing among Filipino political figures both supporting and opposing President Marcos. His rule does not appear to be in danger, though reports of health problems are persistent. In addition, the New People's Army and the Moro National Liberation Front will continue to grow somewhat, posing a problem for but not a challenge to the Marcos regime.

Indonesia: Popular elections are scheduled for 1982. Although there is no prospect that the Suharto government will be thrown out of office, declining hard currency earnings and unrest surrounding the elections will make 1982 an eventful and perhaps troubled year. The only bilateral issue separating the US and Indonesia -- the conviction among Indonesians that the US has lost interest both in Indonesia and in South East Asia -- is unlikely to diminish in 1982.

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